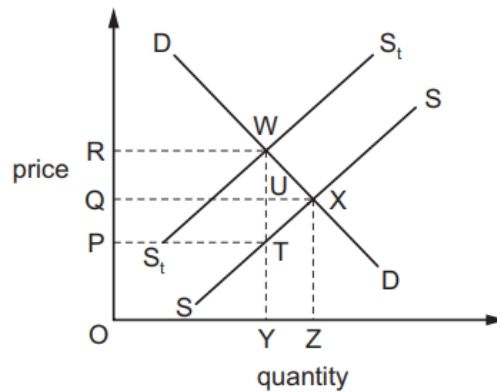


Demand and Supply-Side Policies – MCQs

1) 9708/M16/12/Q28

A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, S_t is the supply curve after tax.



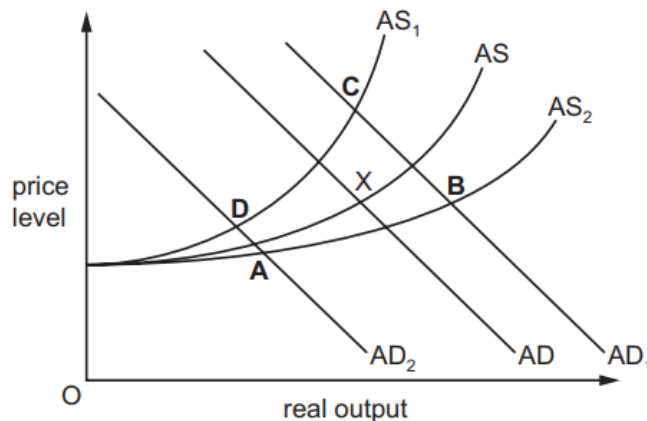
Which area represents that part of the tax revenue paid by producers?

- A** ORWY **B** PQUT **C** PRWT **D** QRWU

2) 9708/m16/q19

A government decided to reduce income tax and increase sales tax. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these tax changes?



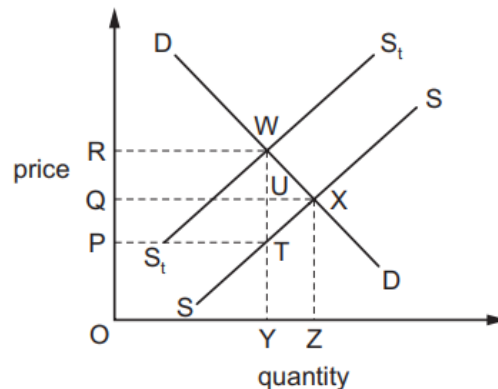
3) 9708/M16/12/Q28

What would be increased by an expansionary fiscal policy?

- A** budget deficit
B exchange rate
C money supply
D rate of direct taxation

4) 9708/s16/11/Q11

A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax, $S_t S_t$ is the supply curve after tax.



Which area represents that part of the tax revenue paid by consumers?

- A ORWY B PQUT C PRWT D QRWU

5) 9708/s16/11/Q15

A product with infinite elasticity of supply has sales of 1000 units a week at a price of \$1 per unit. Price elasticity of demand is 1.5 over the relevant range.

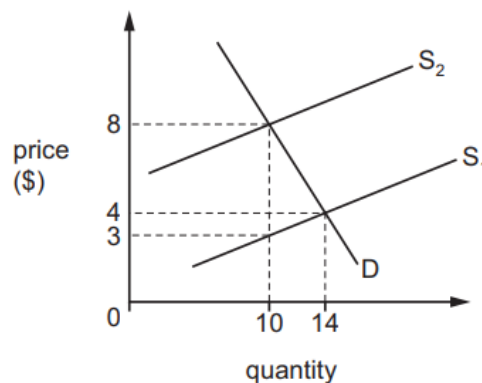
The government imposes a tax of 10%.

What will be the government's weekly tax revenue?

- A \$15 B \$85 C \$100 D \$150

6) 9708/s16/12/Q15

The diagram shows demand and supply curves for a good. S_1 is the original supply curve, S_2 is supply after a tax is added.

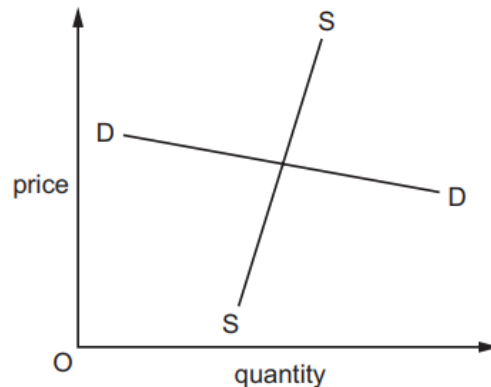


How much tax revenue is earned by the government?

- A \$10 B \$40 C \$50 D \$80

7) 9708/s16/12/q12

The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

- A Most of the incidence of the tax will fall on the producer.
- B There will be a new demand curve parallel to DD.
- C The price will rise by the full amount of the tax.
- D The quantity bought will fall proportionately to the tax rate.

8) 9708/s16/12/Q16

A country uses an income tax under which the first \$10 000 of income is tax-free, the next \$20 000 is taxed at 20% and any income over \$30 000 is taxed at a top rate of 40%. It also levies a sales tax of 10% on most products, although some essential goods are exempt.

Which combination of tax changes is most likely to create a more equal distribution of income in the country?

	income tax	sales tax
A	a higher tax-free allowance	a higher rate of tax
B	a higher top rate of tax	a lower rate of tax
C	a lower tax-free allowance	a higher number of exempt goods
D	a lower top rate of tax	a lower number of exempt goods

9) 9708/s16/13/q11

In the market for a good the quantity supplied (Q_S) and the quantity demanded (Q_D) are given by $Q_S = P - 30$ and $Q_D = 240 - 2P$ where P = price in dollars.

A change in the tax on the good makes $Q_S = P - 36$.

How will the change affect equilibrium price?

- A It will fall by \$2.
- B It will fall by \$6.
- C It will rise by \$2.
- D It will rise by \$6.

10) 9708/s16/13/q14

In a country, the standard rate of sales tax is 10%, but food is not taxed and luxury goods are taxed at 20%. The table shows the patterns of expenditure of three family types.

commodity group	family type by income		
	low	medium	high
food	50%	40%	30%
standard-rated goods	40%	30%	20%
luxury goods	10%	30%	50%

Which combination correctly describes the sales taxes in this country?

	tax on standard-rated goods	tax on luxury goods	tax on all goods
A	progressive	regressive	progressive
B	progressive	regressive	regressive
C	regressive	progressive	regressive
D	regressive	progressive	progressive

11) 9708/s16/13/q15

In 2009 the Chinese government faced decreased demand in export markets and wished to increase the sales of electrical goods made in China.

Which policy would have achieved this aim?

- A increasing income tax
- B increasing the restrictions on the manufacture of electrical goods
- C removing a tariff on imported products
- D subsidising the sales of electrical goods in China's poorer rural areas

12) 9708/s16/13/q28

What can be considered an expansionary supply-side policy?

- A an increase in government expenditure on training
- B an increase in sales tax
- C an increase in the rate of interest
- D an increase (revaluation) of the exchange rate

13) 9708/s16/13/q29

In an attempt to correct a balance of trade deficit, the government of Indonesia has decided to employ expenditure-dampening methods.

Which policy would best fit this description?

- A introducing quotas on imported goods
- B raising income tax rates
- C subsidising home-produced goods
- D taxing imported goods

14) 9708/s16/13/q30

Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

15) 9708/W16/11/Q15

A simple income tax system would be one in which income under \$10 000 is not taxed. Above \$10 000 an income tax rate of 30% is applied to all additional income.

What is correct for people earning more than \$10 000?

	average rate of tax	marginal rate of tax
A	increases as incomes increase	increases as incomes increase
B	increases as incomes increase	remains constant as incomes increase
C	remains constant as incomes increase	increases as incomes increase
D	remains constant as incomes increase	remains constant as incomes increase

16) 9708/W16/11/Q18

A government's budget deficit was reduced.

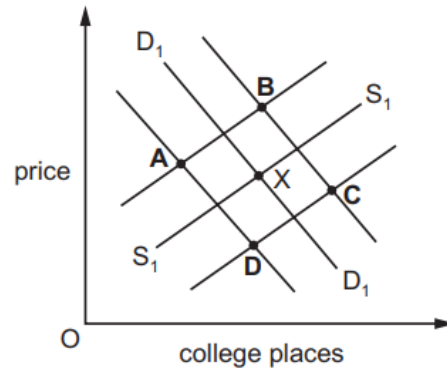
What might have caused this?

- A a decrease in the revenue from vehicle tax
- B an increase in the rate of subsidy given to libraries
- C a purchase of two warships for the national defence
- D a sale of a publicly owned energy company to the private sector

17) 9708/W16/11/Q16

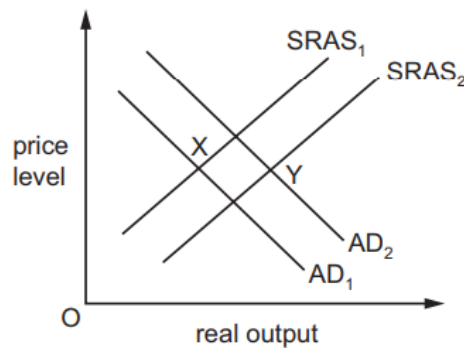
The diagram shows possible demand and supply curves for places in colleges in a country. The initial equilibrium position is X. To increase the number of students in colleges, a government subsidises the colleges and also gives a grant of money to the students.

What would be the new equilibrium position?



18) 9708/W16/11/Q19

The diagram shows aggregate supply curves and aggregate demand curves for an economy.



What is most likely to cause the equilibrium position to move from X to Y?

- A a decrease in corporation tax and a decrease in labour productivity
- B a decrease in interest rates and a decrease in electricity prices
- C an increase in interest rates and an increase in raw material costs
- D an increase in marginal tax rates and a decrease in labour productivity

19) 9708/W16/11/Q28

Which government policy will increase aggregate demand?

- A raising indirect taxation
- B reducing the budget surplus
- C removing domestic subsidies
- D removing import quotas

20) 9708/W16/11/Q29

What would be the best policy for a country to reduce a balance of payments deficit?

- A an increase in interest rates
- B an increase in the exchange rate
- C a reduction in direct taxes
- D a reduction in subsidies to domestic industry

21) 9708/W16/11/Q30

Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in reversing a deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

22) 9708/W16/12/Q27

A government wants to use trade protection both to improve its trade performance and to raise government revenue.

Which policy will help it to achieve this?

- A raising quotas on imported goods
- B raising subsidies on exported goods
- C raising tariffs on exported goods
- D raising tariffs on imported goods

23) 9708/W16/12/Q28

A newly-built public sector engineering training college received poor inspection reports. The government ceased to pay the college the money that it had usually received as its annual grant.

Which types of government policy does this statement imply?

- A fiscal and monetary policies only
- B fiscal and supply-side policies only
- C fiscal, monetary and supply-side policies
- D monetary and supply-side policies only

24) 9708/W16/13/Q15

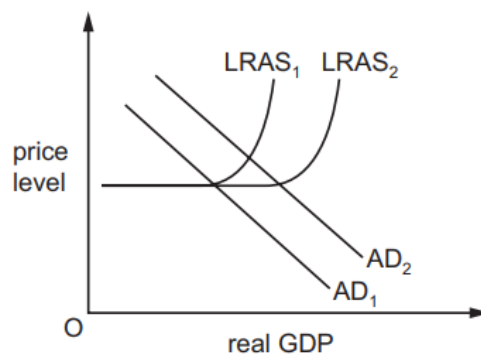
A government decides to reform the tax system with a view to achieving greater equity.

Which change will it make?

- A a reduction in direct taxes
- B a reduction in indirect taxes
- C a reduction in profit taxes
- D a reduction in property taxes

25) 9708/W16/13/Q19

The diagram shows the original aggregate demand AD_1 and aggregate supply $LRAS_1$ for an economy.



What could explain the shifts in aggregate demand to AD_2 and aggregate supply to $LRAS_2$?

- A an increase in government expenditure on health and education
- B an increase in government expenditure on pensions
- C an increase in income tax
- D an increase in interest rates

26) 9708/W16/13/Q28

Which action might be part of an expansionary economic policy?

- A a lower budget deficit
- B a lower level of government spending
- C a lower money supply
- D a lower rate of interest

27) 9708/W16/13/Q30

Which combination of policies is most likely to reduce inflation when an economy is close to full employment?

- A increasing government spending on food subsidies and reducing import duty
- B increasing government spending on road building and increasing import duty
- C reducing government spending on training and increasing indirect taxes
- D reducing government spending on training and reducing the rate of interest

28) 9708/M17/12/Q23

A country has a fixed exchange rate.

What is likely to result in a deterioration in its balance of payments?

- A a decrease in interest rates in foreign countries
- B a decrease in the country's interest rates
- C a decrease in the country's National Income
- D an increase in the income of foreign countries

29) 9708/m17/12/q28

A government wants to operate a tighter monetary policy.

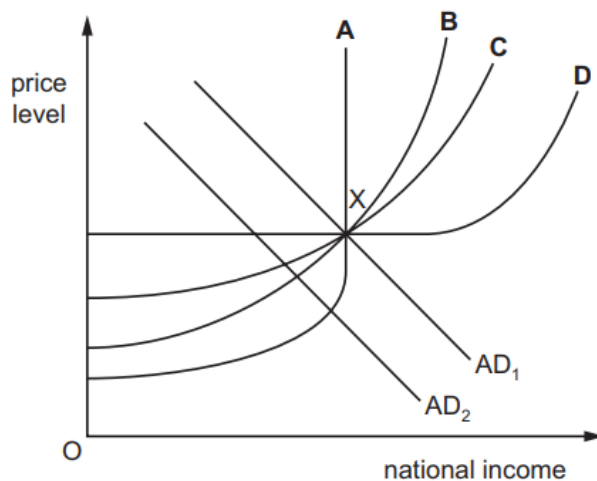
What would it increase?

- A budget surplus
- B interest rate
- C money supply
- D rates of taxation

30) 9708/m17/12/q30

The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2 .

With which AS curve would this policy be least effective?



31) 9708/S17/11/Q27

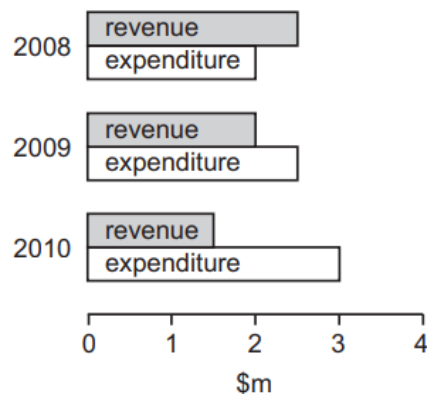
A small trading country decides on a policy of import substitution by producing for itself.

What is the most likely reason for this policy?

- A to follow the principle of absolute advantage
- B to influence world prices in international markets
- C to protect local industries from foreign competition
- D to substitute imported machines for local labour

32) 9708/S17/11/Q28

The diagram shows a government's revenue and expenditure for three years.

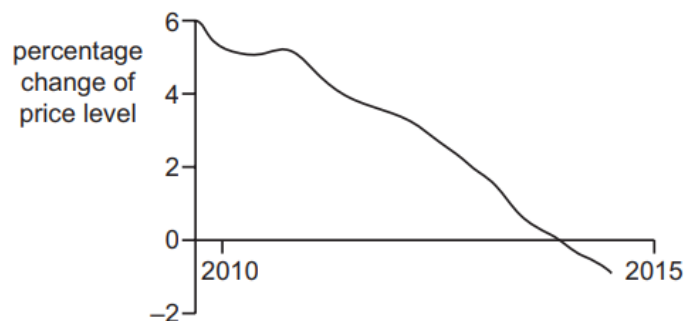


What can be concluded from the diagram?

- A A budget deficit was replaced by a budget surplus.
- B A government borrowing requirement emerged.
- C The economy moved from a recession into a boom period.
- D The yield from taxation continuously increased.

33) 9708/S17/11/Q30

In recent years an economy has experienced changes in its price level as shown.



Which government policy is most effective in reversing the trend shown in the price level?

- A encourage firms to expand production through tax incentives
- B introduce an incomes policy to directly control wage increases
- C promote household savings by issuing savings bonds
- D reduce interest rates and increase money supply

34) 9708/S17/12/Q29

What is an example of an expenditure-dampening policy?

- A an increase in income tax rates
- B an increase in the level of import tariffs
- C an upward revaluation of the exchange rate
- D the introduction of import quotas

35) 9708/S17/12/Q30

An economy is currently operating close to its full employment level of national income.

Which combination of macro-economic policies would be most likely to have net deflationary effects?

- A a 10% cut in the standard rate of income tax and a 5% devaluation of the currency
- B a 10% cut in the standard rate of income tax and a 5% revaluation of the currency
- C a 10% rise in the standard rate of income tax and a 5% devaluation of the currency
- D a 10% rise in the standard rate of income tax and a 5% revaluation of the currency

36) 9708/S17/13/Q28

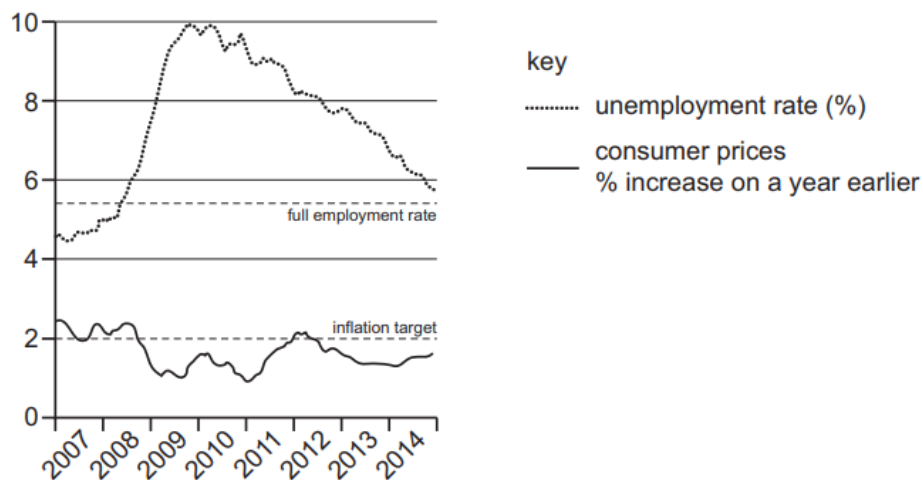
What is a deflationary fiscal measure?

- A reducing interest rates
- B reducing the money supply
- C increasing taxes
- D increasing government expenditure

37) 9708/S17/13/Q30

The US Federal Reserve has a stable price (2% inflation) target and a full employment (5 to 5.2% unemployment) target.

The diagram shows the inflation rate and unemployment rate that existed between 2007 and 2014.



What can be concluded about the performance of Federal Reserve economic policy, 2007 to 2014?

- A The continuing deflation meant failure in the inflation target.
- B The inflation target was achieved less frequently than the employment target.
- C The least successful period for economic policy was experienced in 2007.
- D The nearest to complete policy success was achieved in 2008.

38) 9708/W17/11/Q29

If an economy has a floating exchange rate, which policy could have an expansionary effect on national income with the smallest reduction of a current account surplus on the balance of payments?

- A a reduction in income tax rates
- B a reduction in interest rates
- C government subsidies to individuals wanting loans for house purchases
- D increased government spending on transport infrastructure

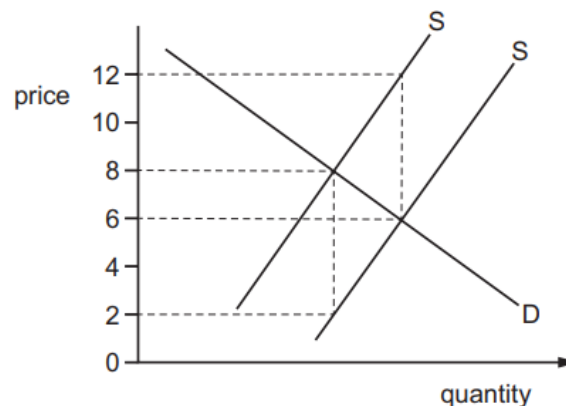
39) 9708/W17/11/Q30

Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

	fiscal policy	monetary policy
A	increasing the budget deficit	reducing the interest rate
B	increasing the budget deficit	reducing the money supply
C	reducing the budget deficit	reducing the interest rate
D	reducing the budget deficit	reducing the money supply

40) 9708/W17/12/Q15

The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.

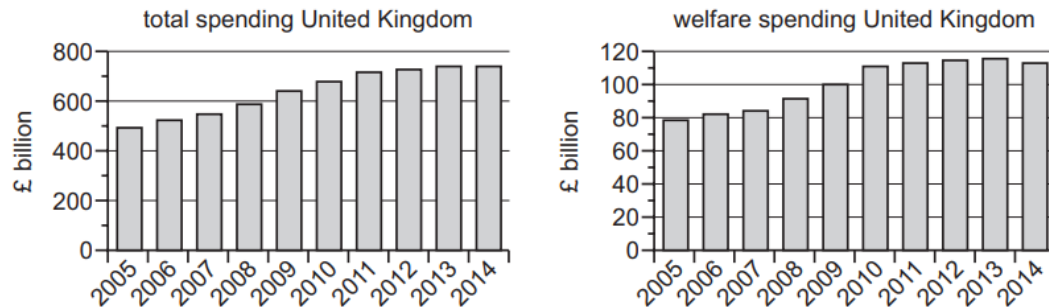


What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

41) 9708/W17/12/Q17

The diagrams show UK Government total spending and welfare spending in £ billions between 2005 and 2014.



What can be concluded from the diagrams about UK Government spending during the period 2005 to 2014?

- A Both forms of spending were cut in 2014.
- B Both total and welfare spending have risen continuously.
- C In 2005 welfare spending made up a quarter of total spending.
- D Non-welfare spending has always exceeded welfare spending.

42) 9708/W17/12/Q28

Monetary policy can be used to increase the level of business activity.

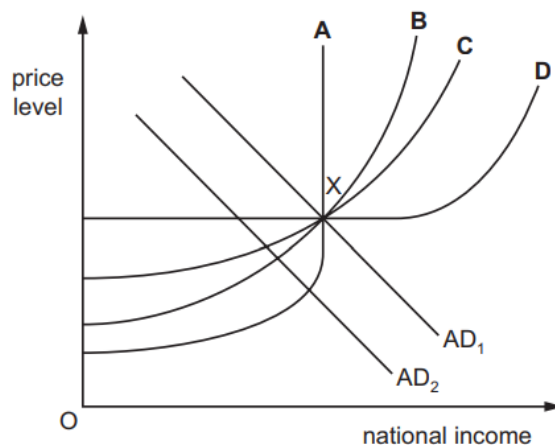
Which action illustrates this?

- A curbing consumption through controls on credit
- B lowering reserve requirements of banks to increase lending
- C reducing government spending to achieve a budget surplus
- D stimulating company investments by increasing interest rates

43) 9708/W17/12/Q30

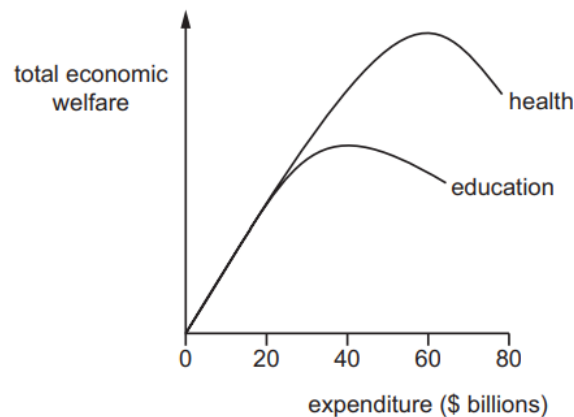
The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2 .

With which AS curve would this policy be most effective?



44) 9708/W17/13/Q16

The graph shows the total economic welfare derived by citizens from a government's expenditure on health and education services.



If the government has \$60 billion of its budget to allocate between health and education services, which allocation will give its citizens the highest level of welfare?

	health spending (\$ billions)	education spending (\$ billions)
A	0	60
B	20	40
C	40	20
D	60	0

45) 9708/W17/13/Q17

The table shows the demand and supply schedules for a good before and after the imposition of a tax.

price (\$)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the tax and the price change?

	tax (\$)	price change (\$)
A	3	2
B	3	3
C	4	3
D	4	4

46) 9708/W17/13/Q30

Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

- A a long-run supply side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions
- B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments
- C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target
- D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

47) 9708/M18/12/Q28

Which action is classified as a fiscal policy measure?

- A fixing a currency to another country's currency
- B managing changes in the level of government debt
- C providing guidance to industry and the public
- D tightening reserve asset requirements for financial institutions

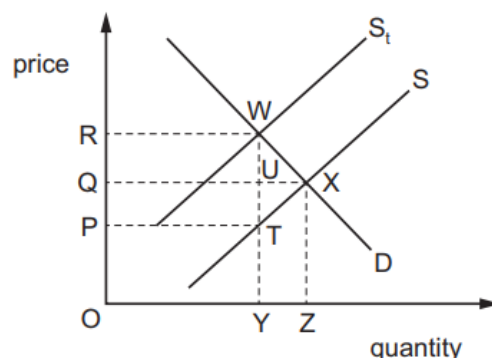
48) 9708/M18/12/Q30

Which type of policy would have the most immediate effect in dealing with a deflationary economic downturn?

- A increasing the government's budget surplus
- B increasing liquidity by assisting banks to lend more
- C investing in projects to improve transport networks
- D switching the burden of taxation from earning to spending

49) 9708/S18/11/Q12

A specific tax is placed upon each bottle of perfume sold. In the diagram, S is the supply curve before tax and S_t is the supply curve after tax.



Which area represents the revenue received by the government from the tax?

- A ORWY
- B PQUT
- C PRWT
- D QRWU

50) 9708/S18/11/Q28

A government decides to borrow from the general public in order to finance its extra spending on apprenticeship training schemes.

Which types of macroeconomic policy are being used?

	fiscal	monetary	supply side	
A	✓	x	✓	key
B	✓	x	x	✓ = used
C	x	✓	✓	x = not used
D	x	✓	x	

51) 9708/S18/11/Q30

A country has a target rate of inflation of 2.5% and has recently experienced the actual rate rising to 6%, with unemployment falling to very low levels.

Which policy option is most likely to be implemented?

- A** an increase in government expenditure on training
- B** an increase in indirect taxes on demerit goods
- C** an increase in import tariffs
- D** an increase in interest rates

52) 9708/S18/12/Q28

What is an example of expansionary monetary policy?

- A** the central bank buying government bonds in the money market
- B** the central bank causing an appreciation of the country's foreign exchange rate
- C** the central bank increasing controls on credit lending
- D** the central bank increasing the minimum lending rate of interest

53) 9708/S18/12/Q30

In an economy, prices are rising. The government wishes to limit further increases in prices.

Which policies would it be likely to use?

- A** decrease goods and services (sales) tax and put a quota on cheap imports
- B** decrease income tax and decrease interest rates
- C** increase interest rates and decrease government spending
- D** withdraw industry subsidies and impose a minimum wage

54) 9708/S18/13/Q15

Which element of a tax and benefits system is regressive?

- A rent subsidies to tenants of publicly owned housing
- B specific taxes on beer and tobacco
- C the payment of child benefits to families
- D the taxation of capital gains

55) 9708/S18/13/Q28

A government increases the basic rate of income tax to finance additional spending on apprenticeships and training.

Which types of macroeconomic policy are being used?

	fiscal policy	monetary policy	supply side policy	
A	✓	✓	✓	key
B	✓	✓	X	✓ = used
C	✓	X	✓	X = not used
D	X	✓	✓	

56) 9708/S18/13/Q30

Bulgaria's Consumer Price Index changed at an annual rate of -2.2% in April 2016. In May the annual rate of change was -1.4%.

What fiscal policy and monetary policy would be most appropriate in the short run to restore price stability?

	fiscal policy	monetary policy
A	decrease government spending	decrease interest rates
B	decrease taxes	increase rate of interest
C	increase government spending	decrease interest rates
D	increase taxes	increase rate of interest

57) 9708/W18/11/Q28

In 2012, the Indian Government stated that it aimed to reduce its budget deficit to 5.1% of GDP.

Which policy is most likely to help this aim?

- A a decrease in import tariffs
- B a decrease in the rate of interest
- C an increase in the sale of state-owned assets
- D an increase in government pension payments

58) 9708/w18/11/q30

A government reduced the tax on company profits from 28% to 20%.

Which statement best describes this policy?

- A It is both a contractionary fiscal policy and a supply-side policy.
- B It is both an expansionary fiscal policy and a supply-side policy.
- C It is both an expansionary fiscal policy and an expansionary monetary policy.
- D It is both an expansionary monetary policy and a supply-side policy.

59) 9708/W18/12/Q15

The income tax structure of a country has two elements.

- 1 The first \$20 000 of earned income is not taxed.
- 2 Any income earned above \$20 000 is taxed at 20%.

What would be a correct description of this tax structure?

- A a progressive tax on incomes of more than \$20 000
- B a progressive tax throughout the whole income range
- C a proportional tax on incomes of more than \$20 000
- D a regressive tax throughout the whole income range

60) 9708/W18/12/Q28

What is an example of a supply-side policy?

- A an import quota to restrict the supply of goods
- B a rise in interest rates to encourage the supply of savings
- C a specific tax on the supply of goods to raise revenue
- D a subsidy to businesses to promote the supply of training courses

61) 9708/W18/12/Q30

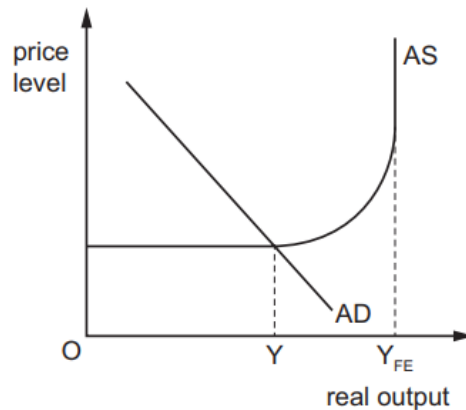
Which policy mix is most likely to be effective in the short run for reducing inflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget surplus	increasing the interest rate
B	decreasing the budget surplus	increasing the money supply
C	increasing the budget surplus	increasing the interest rate
D	increasing the budget surplus	increasing the money supply



62) 9708/W18/13/Q19

An economy has an equilibrium level of real output Y , but wishes to move towards its full employment level of real output Y_{FE} .



Which combination of policy measures is most likely to achieve this wish without high inflation?

- A decreasing interest rates and raising investment in new technology
- B decreasing the money supply and raising corporation tax rates
- C increasing interest rates and raising income tax thresholds
- D increasing the money supply and raising welfare benefit payments

63) 9708/W18/13/Q28

Which government policy is most likely to focus on an increase in the quantity of skilled labour?

- A exchange rate policy
- B fiscal policy
- C monetary policy
- D supply-side policy

64) 9708/W18/13/Q30

The government increases interest rates in order to reduce the rate of inflation.

What will also result from this action?

- A a depreciation of the country's currency
- B a fall in the level of savings
- C a reduction in economic growth
- D a reduction in unemployment

65) 9708/M19/12/Q28

Which action might be part of an expansionary economic policy?

- A reducing the budget deficit
- B reducing the level of government spending
- C reducing the money supply
- D reducing the rate of interest

66) 9708/M19/12/Q29

A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a fall in output.

Which action is **most** likely to meet its needs?

- A an increase in laws to promote competition
- B an increase in taxation
- C an increase in the budget surplus
- D an increase in the exchange rate

67) 9708/S19/11/Q28

What is most likely to be increased by a policy of increased direct taxes and lower government spending?

- A the balance of payments deficit
- B the budget deficit
- C the rate of inflation
- D the level of unemployment

68) 9708/S19/11/Q29

To encourage people to work, a government increases the minimum income level at which people start to pay income tax.

Which types of macroeconomic policy are being followed here?

	fiscal policy	monetary policy	supply side policy
A	✓	x	✓
B	x	✓	✓
C	✓	✓	✓
D	✓	✓	x



69) 9708/S19/11/Q30

A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

- A depreciating its currency
- B higher direct taxation
- C higher import tariffs
- D higher interest rates

70) 9708/S19/12/Q19

A country has a fixed exchange rate.

Which combination of problems would be most likely to cause the country's government to reduce taxation and lower interest rates?

- A demand inflation and a balance of payments current account deficit
- B demand inflation and a low level of investments
- C high unemployment and a balance of payments current account deficit
- D high unemployment and a low level of investment

71) 9708/S19/13/Q29

Monetary policy does not usually work immediately.

Which time lag is likely to be the **least** concern to a government whose priority is a rapid domestic impact?

- A the time it takes for policymakers to recognise the cause of a problem
- B the time it takes for the economy to respond to the introduction of the policy
- C the time it takes for the foreign exchange rate to respond to the effect of the policy
- D the time it takes to put the chosen policy measure into place

72) 9708/S19/13/Q30

Monetary policy does not usually work immediately.

Which time lag is likely to be the **least** concern to a government whose priority is a rapid domestic impact?

- A the time it takes for policymakers to recognise the cause of a problem
- B the time it takes for the economy to respond to the introduction of the policy
- C the time it takes for the foreign exchange rate to respond to the effect of the policy
- D the time it takes to put the chosen policy measure into place

73) 9708/W19/11/Q16

A government policy favours older people at the expense of younger people.

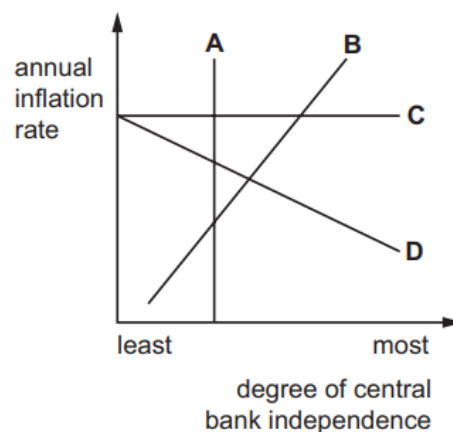
Which would be **most** likely to correct such an imbalance?

- A an increase in expenditure on government-provided pensions
- B an increase in government-subsidised training schemes for school-leavers
- C an increase in the rate of income tax on earned incomes
- D an increase in the rate of interest on savings

74) 9708/W19/11/Q29

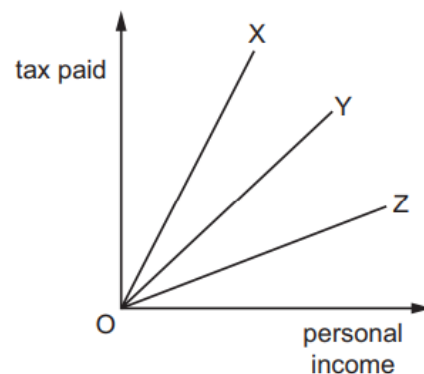
The diagram shows the possible relationships between the degree of independence of the central bank and the level of inflation.

Which relationship suggests that central bank independence is an effective way to reduce inflation?



75) 9708/W19/12/Q15

The diagram shows three possible tax schemes.



What can be concluded about these tax schemes?

- A X is more progressive than Z.
- B X, Y and Z are all proportional.
- C Y is the only proportional tax.
- D Z is more regressive than Y.

76) 9708/W19/12/Q30

What would be increased by an expansionary fiscal policy?

- A budget deficit
- B exchange rate
- C money supply
- D rate of direct taxation

77) 9708/W19/13/Q28

An economy experiences cost-push inflation.

Which combination of policies would be best for the economy to use to reduce cost-push inflation?

	exchange rate	supply-side policy
A	appreciate	lower minimum wage
B	appreciate	raise minimum wage
C	depreciate	lower minimum wage
D	depreciate	raise minimum wage

78) 9708/W19/13/Q29

A government reduces the rate of tax firms are charged on their land and buildings.

How is this likely to affect the economy's price level and real output?

	price level	real output
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

79) 9708/W19/13/Q30

A government adopts a more expansionary fiscal policy and a more deflationary monetary policy.

Which combination of changes in policy instruments is consistent with this?

	government expenditure	taxation	interest rate
A	decrease	decrease	decrease
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	increase

80) 9708/M20/12/Q17

Which type of tax is the 15% sales tax levied in South Africa?

- A ad valorem direct
- B ad valorem indirect
- C specific direct
- D specific indirect

81) 9708/M20/12/Q20

An appreciation of the South African rand in the foreign exchange markets is **most** likely to assist the South African government achieve which policy objective?

- A a redistribution of income
- B a reduction in the rate of inflation
- C a reduction in the volume of imports
- D an increase in the level of employment

82) 9708/M20/12/Q29

What is an example of fiscal policy aimed at increasing aggregate demand in an economy?

- A increasing expenditure by firms on skills training programmes for unskilled workers
- B increasing the commercial banks' lending ability
- C reducing the rate of income tax for all income earners
- D reducing the rate of interest on loans to manufacturing companies

83) 9708/S20/12/Q27

In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

- A Menu costs will fall to zero.
- B People on fixed incomes will be better off in real terms.
- C Savers will gain in real terms.
- D The purchasing power of the currency will rise.

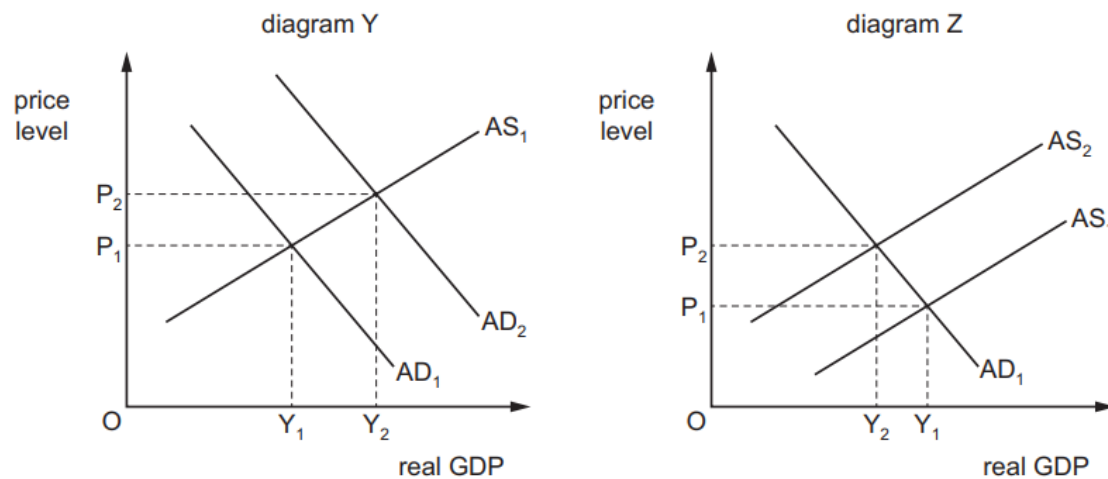
84) 9708/S20/12/Q28

Which combination correctly classifies an expansionary fiscal measure and its impact on a budget deficit?

	fiscal policy	budget deficit
A	increased quantitative easing	unchanged
B	increased welfare spending	increased
C	lower income tax	reduced
D	lower interest rates	unchanged

85) 9708/S20/12/Q30

During the Great Depression the US government believed that deflation was caused by a collapse in the prices of stock and other assets, reducing the levels of wealth and confidence. The diagrams show two approaches to counter deflation.



Given this belief, which policy should the US government have used, in an attempt to remove the deflation and which diagram represents the intended outcome of the policy?

	policy	intended outcome
A	decrease interest rates	diagram Y
B	reduce corporation tax	diagram Z
C	increase interest rates	diagram Z
D	reduce corporation tax	diagram Y

86) 9708/S20/13/Q28

What would be a positive effect on the growth of an economy in the short run, if the government reduced a direct tax on individual earnings?

- A** food prices would increase due to shortages
- B** imports of luxury cars would increase to satisfy a change in demand
- C** savings would increase due to additional disposable income
- D** the consumption of domestically produced goods would increase

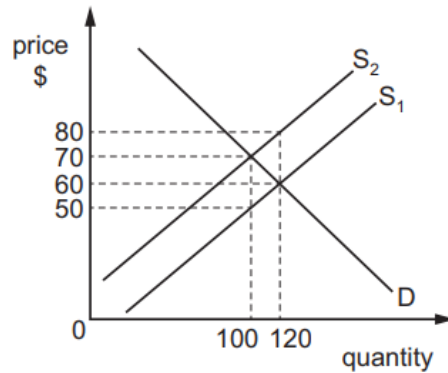
87) 9708/S20/13/Q29

Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget deficit	decreasing the interest rate
B	decreasing the budget deficit	decreasing the money supply
C	increasing the budget deficit	decreasing the interest rate
D	increasing the budget deficit	decreasing the money supply

88) 9708/W20/11/Q15

The diagram shows the impact of a unit tax imposed by a government on a good. The original supply curve is S_1 and the supply curve after the unit tax is S_2 .



What would be the amount of tax paid by the consumer?

- A \$500 B \$1000 C \$1500 D \$2400

89) 9708/w20/11/q18

A government imposes an income tax on individuals. The first \$100 000 of earned income is taxed at a rate of 20%, and all further earned income above \$100 000 is taxed at a marginal rate of 50%.

Which statement is **not** valid?

- A The average income tax rate is 20% at an income of \$80 000 and 35% at an income of \$200 000.
 B The tax is a direct tax for incomes above \$100 000.
 C The tax is a proportional tax for incomes between \$20 000 and \$40 000.
 D The tax is regressive when incomes change from below to above \$100 000.

90) 9708/W20/11/Q28

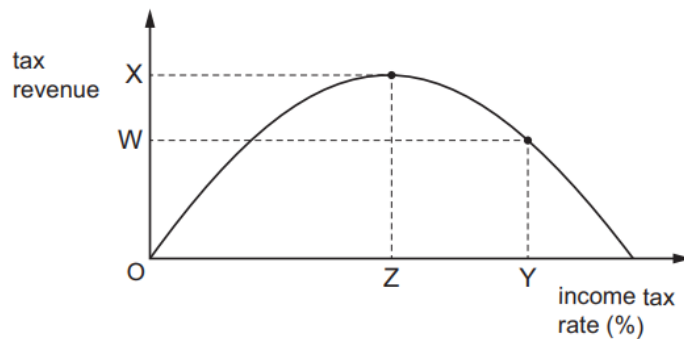
Greece had an unemployment rate of over 20% in 2016.

Which combination of policies would be best for the Greek government to try to reduce unemployment?

	monetary policy	government expenditure	profit tax
A	decrease interest rates	increase	decrease
B	decrease interest rates	decrease	increase
C	increase interest rates	increase	increase
D	increase interest rates	decrease	decrease

91) 9708/W20/11/Q29

The diagram shows the relationship between the income tax rate and tax revenue.



Which statement is correct?

- A A tax rate cut from Y to Z will cause tax revenue to decrease.
- B At tax rates below Z a tax rate cut will cause tax revenue to increase.
- C The greater the rate of tax increases beyond Z, the smaller will be the tax revenue generated.
- D Tax revenue will always increase as the rate of income tax increases.

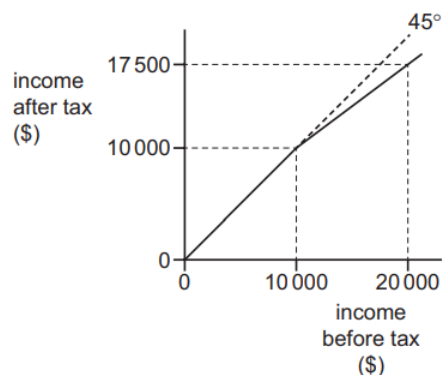
92) 9708/W20/11/Q30

What would be classified as a supply-side policy measure?

- A a law to reduce the power of trade unions
- B a reduction in the government's fiscal deficit
- C an open market sale of securities
- D the imposition of a tariff on imported goods

93) 9708/W20/12/Q15

The graph shows an individual's income before and after the deduction of income tax.



What is the marginal percentage rate of tax between \$0 and \$10 000, and between \$10 000 and \$20 000?

	\$0–\$10 000	\$10 000–\$20 000
A	0%	12.5%
B	0%	25.0%
C	1%	12.5%
D	1%	25.0%

94) 9708/W20/12/Q26

The government of an open economy with an overvalued currency decides to abandon its fixed exchange rate in favour of a floating exchange rate.

Which macroeconomic policy aim is **least** likely to be met because of this change?

- A a low inflation rate
- B a low level of unemployment
- C a reduced balance of payments deficit
- D a sustainable rate of economic growth

95) 9708/W20/12/Q28

A government uses monetary policy and fiscal policy to solve a problem of deflation.

Which policy combination is likely to be the **most** successful?

	monetary policy	fiscal policy
A	increasing interest rates	contractionary
B	increasing interest rates	expansionary
C	reducing interest rates	contractionary
D	reducing interest rates	expansionary

96) 9708/W20/12/Q29

A government reduces its expenditure on workplace training, increases the level of indirect taxes, and reduces the rate of interest it pays on government debt.

How would these government macroeconomic policies be categorised?

	supply-side	fiscal	monetary	
A	con	con	exp	key
B	exp	con	con	con = contractionary
C	con	exp	exp	exp = expansionary
D	exp	exp	con	

97) 9708/W20/13/Q27

To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

- A a higher cost of borrowing
- B a higher rate of inflation
- C an appreciation of the exchange rate
- D an increase in government debt

98) 9708/W20/13/Q28

A government reduces the benefits that it pays to unemployed workers to increase the incentive to work.

Which types of macroeconomic policies are being used?

	fiscal policy	monetary policy	supply-side policy
A	✓	x	x
B	✓	✓	x
C	✓	x	✓
D	x	x	✓

99) 9708/W20/13/Q29

Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

- A** a long-run supply-side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions
- B** a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments
- C** a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target
- D** a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

100) 9708/W20/13/Q30

Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in solving deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

101) 9708/M21/12/Q30

A government spends money building more schools.

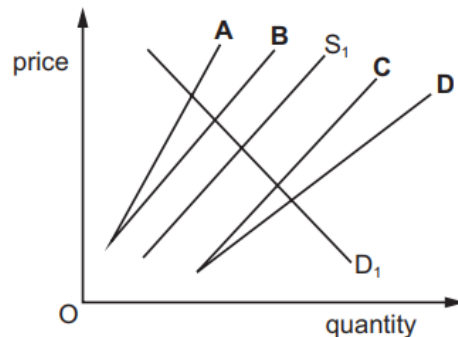
How might this be classified?

	fiscal policy	supply-side policy	monetary policy
A	✓	✓	✗
B	✓	✓	✓
C	✓	✗	✗
D	✗	✓	✗

102) 9708/S21/12/Q16

In the diagram, S_1 and D_1 are the initial supply and demand curves of a product.

What would be the new supply curve following the removal of an ad valorem tax on the product?



103) 9708/S21/12/Q17

The table shows sources of government revenue in a fiscal year for an economy.

source of revenue	\$ billions
sale of government assets	100
tax on self employed	1000
carbon tax on goods produced	100
corporate taxes	500
capital gains tax	100
goods and services tax	1000
air passenger tax	100

What is the total amount, in \$ billions, of tax revenue raised by indirect taxes?

- A** 1200 **B** 1300 **C** 1400 **D** 1600

104) 9708/S21/12/Q28

Why are higher interest rates together with increased taxation on expenditure likely to cause domestic deflation?

- A because the contractionary monetary policy will over-ride the expansionary fiscal policy
- B because the monetary and fiscal policies involved will reinforce each other
- C because the expansionary monetary policy will over-ride the contractionary fiscal policy
- D because the monetary and fiscal policies involved will cancel each other out

105) 9708/S21/13/Q27

Which type of policy would have the most immediate effect in dealing with a deflationary economic downturn?

- A increasing the government's budget surplus
- B increasing borrowing by assisting banks to lend more
- C investing in long-term projects to improve transport networks
- D switching the burden of taxation from earning to spending

106) 9708/S21/13/Q28

Which combination identifies a main aim of supply-side policy and a measure used to achieve this target?

	main aim	policy measure
A	economic growth	deregulation
B	full employment	increasing the money supply
C	income equality	more progressive taxation
D	stable prices	decreasing interest rates

107) 9708/S21/13/Q29

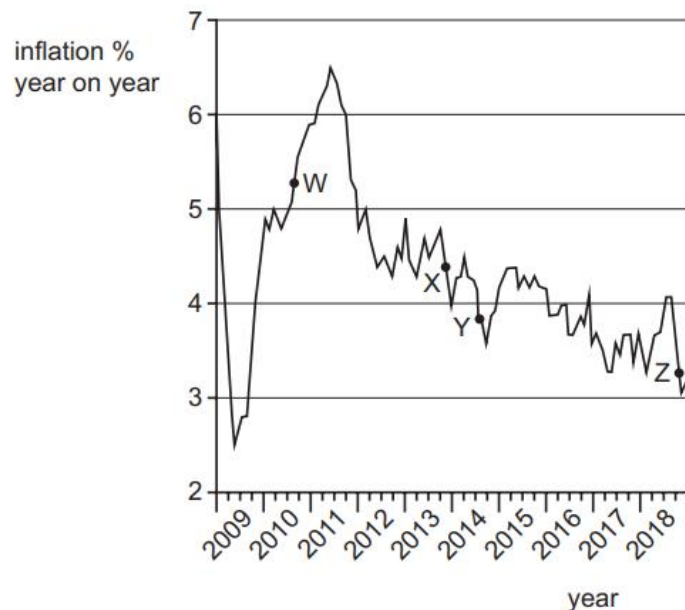
Deflation is associated with persistent falling price levels.

Which government policy would be most effective to prevent deflation?

- A imposing maximum price levels on basic foodstuffs
- B improving consumer confidence by reducing sales taxes
- C increasing income tax rates and increasing government borrowing
- D removing economic uncertainty and encouraging business investment

108) 9708/S21/13/Q30

The graph shows inflation rates over 10 years for selected emerging economies.



Government central banks set target minimum inflation rates before readjusting interest rates to stabilise the economy.

If the minimum inflation rate target set by central banks was 4% per year, at which points would they allow interest rates to fall?

- A** W and X **B** X and Y **C** Y and Z **D** Z and W

109) 9708/W21/11/Q15

What did Adam Smith mean by 'economy' when describing his canons of taxation?

- A** The cost of collecting the tax should be low.
B The tax should be easy to pay.
C The tax should have a neutral effect on the use of resources.
D The tax should have a positive effect on aggregate supply.

110) 9708/W21/11/Q28

A government reduces the rate of direct income tax and devalues its currency.

Which row describes the policy effects of these decisions?

	fiscal policy	monetary policy	supply-side policy
A	contractionary	expansionary	contractionary
B	expansionary	contractionary	expansionary
C	expansionary	expansionary	contractionary
D	expansionary	expansionary	expansionary

111) 9708/W21/11/Q30

The government wishes to increase aggregate demand.

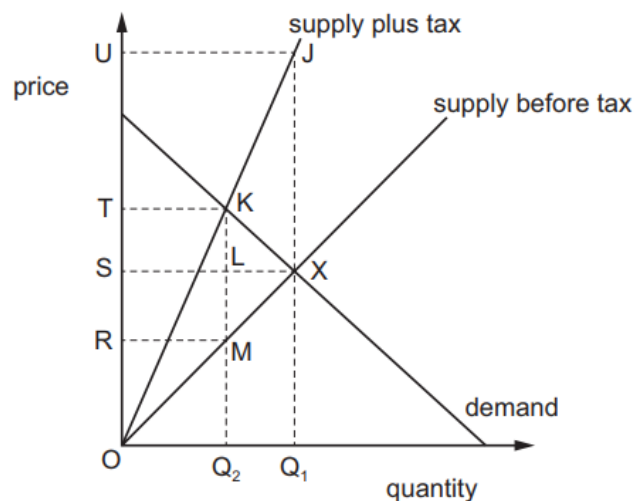
Which actions would be most likely to succeed?

- A a reduction in income tax and an increase in interest rates
- B a reduction in income tax and an increase in production subsidies
- C an increase in corporate tax and an increase in government spending
- D an increase in value added tax (sales tax) and a reduction in government spending

112) 9708/W21/12/Q7

The market for mobile phones is initially in equilibrium at X. The government then imposes a sales tax.

What is the government's total tax revenue from this tax?



- A JKX
- B TKLS
- C TKMR
- D UJXS

113) 9708/W21/12/Q15

What is a distinguishing feature of a progressive income tax?

- A High earners pay a higher proportion of their income in tax than low earners.
- B High earners pay a lower proportion of their income in tax than low earners.
- C High earners pay the same proportion of their income in tax as low earners.
- D Low earners pay more tax than high earners.

114) 9708/W21/12/Q28

In 2012, the Indian Government stated that it aimed to reduce its budget deficit to 5.1% of GDP.

Which policy is most likely to help this aim in the short run?

- A a decrease in import tariffs
- B a decrease in the rate of interest
- C an increase in the sale of state-owned assets
- D an increase in government pension payments

115) 9708/W21/12/Q29

What would make a policy of raising interest rates **less** likely to be effective in reducing inflation?

- A Aggregate supply is increasing faster than aggregate demand.
- B Consumers expect prices to rise even faster in the future.
- C Consumers' spending is largely paid for on credit.
- D Interest rates are still higher abroad.

116) 9708/W21/12/Q30

Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

117) 9708/W21/13/Q28

What is an example of the use of monetary policy?

- A a cut in the rate of corporation tax
- B a reduction in interest rates
- C a switch from direct to indirect taxation
- D the introduction of maximum price controls to reduce inflation

118) 9708/W21/13/Q29

Which policy would be likely to increase inflation?

- A an increase in income tax
- B an increase in interest rates
- C limiting the amount banks can lend
- D raising the level of import tariffs

119) 9708/M22/12/Q14

To improve its financial position, a government decided to reduce expenditure on investment in the public sector. There was not a fall in economic growth.

What was the **most** likely effect of the government's action?

- A An original budget deficit was reduced.
- B An original budget surplus was reduced.
- C Consumer expenditure decreased.
- D Public sector productivity decreased.

120) 9708/M22/12/Q17

Three types of tax are listed.

- a sales tax (VAT) on fuel
- a specific tax of 10% on cigarettes
- the percentage of income tax on individual earnings increases as taxable income increases

Which combination describes the effect of each of these types of tax?

	VAT	specific tax	income tax
A	progressive	progressive	regressive
B	progressive	regressive	progressive
C	regressive	progressive	regressive
D	regressive	regressive	progressive

121) 9708/M22/12/Q29

An increase in which variable is a contractionary monetary policy?

- A the budget deficit
- B the budget surplus
- C the interest rate
- D the money supply

122) 9708/M22/12/Q30

What are government monetary policies that would be the most effective in a global recession?

- A allowing the rate of interest to fluctuate and increasing business taxation
- B increasing the budget surplus and raising tariffs on imports
- C keeping the rate of interest very low and increasing the money supply
- D raising the rate of interest and restricting the money supply



123) 9708/S22/11/Q26

What would be the best policy to increase the value of a currency?

- A Impose tariffs on imported goods with price-inelastic demand.
- B Increase interest rates.
- C Reduce income tax.
- D Sell the currency on the foreign exchange markets.

124) 9708/S22/11/Q27

The central bank of an economy decides to raise interest rates in order to attract capital inflows and improve the financial account of the balance of payments.

When is the central bank's decision **least** likely to be effective?

- A when the currency of the economy is expected to lose its value
- B when the economy is politically and economically stable
- C when the interest rate of the economy is higher than that of other countries
- D when the reserves of foreign currencies held by the central bank are high and rising

125) 9708/S22/11/Q28

What could be described as an expansionary fiscal policy?

- A a decrease in the budget deficit
- B a decrease in the budget surplus
- C a decrease in the exchange rate
- D a decrease in the money supply

126) 9708/S22/11/Q29

Why will a contractionary monetary policy reduce inflation?

- A Banks will lend more.
- B Consumers will have higher disposable income.
- C Consumers will pay more tax.
- D Consumers will save more.

127) 9708/S22/11/Q30

The government of a country is worried about a large deficit on the current account of its balance of payments and an increasing rate of inflation. The country has a fixed exchange rate for its currency.

Which policy measure is **most** likely to help the government to reduce the current account deficit and lower the rate of inflation?

- A devaluation of the currency
- B increasing government spending
- C decreasing the direct taxes
- D increasing the interest rate

128) 9708/S22/12/Q14

Which combination of tax changes is **most** likely to be regressive in a developed economy?

- A increasing the rate of wealth tax and raising the rate of sales tax (VAT) on luxury products
- B introducing a tax on owning property based on its sales value and increasing the rate of income tax
- C reducing the basic rate of income tax and increasing the duty on fuel
- D removing the tax-free allowance for income tax and extending sales tax (VAT) to include all food

129) 9708/S22/12/Q29

What is an example of contractionary fiscal policy?

- A an increase in the budget deficit
- B an increase in the budget surplus
- C an increase in the interest rate
- D an increase in the money supply

130) 9708/S22/12/Q30

A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

- A depreciating its currency
- B higher direct taxation
- C higher import tariffs
- D higher interest rates

131) 9708/S22/13/Q2

The table shows the amount of direct taxes that different households in the UK paid in 2017–2018.

	bottom 20% of households	second 20% of households	middle 20% of households	fourth 20% of households	top 20% of households
average income (£)	15 300	25 000	34 600	47 600	90 600
direct tax paid (£)	2 000	3 500	6 000	9 500	21 200

Which positive economic statement can be made from the table?

- A Direct tax is unfair on the richer households in the UK.
- B Direct tax in the UK is a proportional tax.
- C Poorer households do not pay enough direct tax in the UK.
- D Rich households pay more direct tax than poor households in the UK.

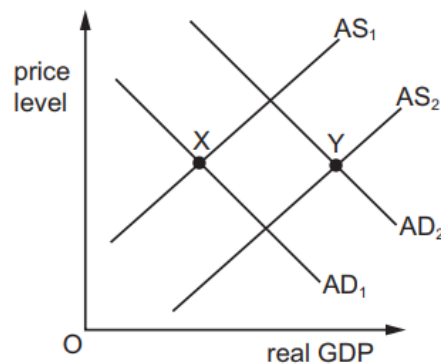
132) 9708/S22/13/Q16

Which type of tax used in different countries is a direct tax?

- A corporation tax in India that is imposed on the profits of companies
- B import duties in Brazil that are imposed on imported goods
- C specific tax in South Africa imposed on the purchase of cigarettes
- D stamp duty in Malaysia that is the tax on the purchase of a residential property

133) 9708/S22/13/Q29

The diagram shows the AD / AS curves for an economy.



Which government action is most likely to cause the equilibrium position to move from X to Y?

- A an increase in the exchange rate that makes locally produced goods less price-competitive, both at home and abroad
- B an increase in government spending on infrastructure that increases the production potential of the economy
- C an increase in interest rates that increases the cost of borrowing
- D an increase in real wages of labour

134) 9708/S22/13/Q30

A country is suffering from severe deflation.

What is most likely to prevent the deflation from worsening?

- A increasing income tax to help reduce the government's budget deficit
- B increasing interest rates to encourage more saving
- C increasing transfer payments to reduce inequality of income
- D revaluing the currency to bring in more revenue from exports

135) 9708/S22/14/Q18

A government introduces taxes on company profits. A 5% tax rate is levied on all profits up to the first \$10 000 and a 10% rate is levied on all profits above \$10 000.

How would these taxes be described?

	up to \$10 000	above \$10 000
A	progressive	progressive
B	progressive	proportional
C	proportional	progressive
D	proportional	proportional

136) 9708/W22/11/Q28

What would be increased by an expansionary fiscal policy?

- A** budget deficit
- B** exchange rate
- C** money supply
- D** rate of direct taxation

137) 9708/W22/11/Q29

A government decides to borrow from the general public in order to finance its extra spending on apprenticeship training schemes.

Which types of macroeconomic policy are being used?

	fiscal	monetary	supply side
A	✓	x	✓
B	✓	x	x
C	x	✓	✓
D	x	✓	x

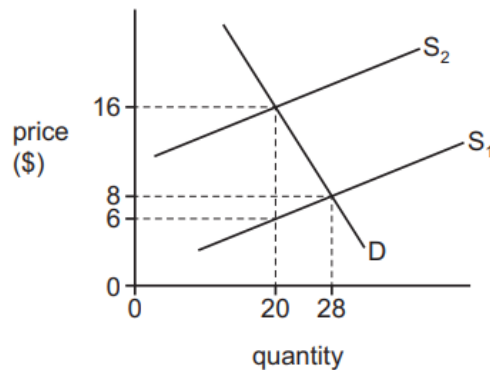
138) 9708/W22/12/Q19

What defines a progressive tax?

- A** Low-income earners pay the same proportion of income in taxes as high-income earners.
- B** Low-income earners pay a lower proportion of income in taxes than high-income earners.
- C** Low-income earners pay less in taxes than high-income earners.
- D** Low-income earners pay more in taxes than high-income earners.

139) 9708/W22/12/Q16

The diagram shows demand and supply curves for a good. S_1 is the original supply curve, S_2 is supply after a tax is added.



How much tax revenue is earned by the government?

- A** \$40 **B** \$160 **C** \$200 **D** \$320

140) 9708/W22/12/Q29

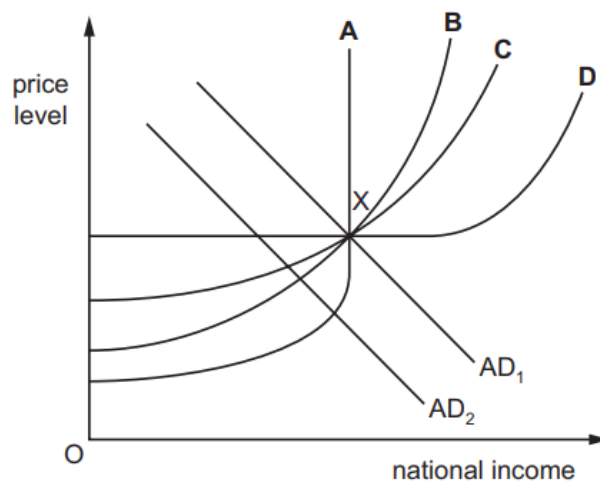
Which type of economic policy is likely to be considered the most effective by a government that has greater income equality as its primary aim?

- A** fiscal policy
B international trade policy
C monetary policy
D supply side policy

141) 9708/W22/12/Q30

The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2 .

With which AS curve would this policy be most effective?



142) 9708/W22/13/Q15

In 2009, the Australian Government made a payment of \$900 to those who earned less than \$100 000 per year.

How would this payment best be described?

- A neutral
- B progressive
- C proportional
- D regressive

143) 9708/W22/13/Q18

What does the incidence of an indirect tax on a product refer to?

- A the proportion of the tax paid by the consumer relative to the producer
- B the reduction in output as a result of the imposition of the tax
- C the revenue the tax generates for the government
- D the increase in the hidden economy as a result of tax evasion after the tax is imposed

144) 9708/W22/13/Q29

A country is currently experiencing deflation. It has a large national debt that is greater than its annual real income.

Which combination of policies is most likely to increase the general price level without adding to the national debt?

	fiscal policy	monetary policy
A	decrease the budget deficit	decrease the money supply
B	decrease the budget deficit	increase the money supply
C	increase the budget deficit	decrease the money supply
D	increase the budget deficit	increase the money supply

145) 9708/W22/13/Q30

Which government action will conflict with the named economic target?

	target	action
A	lower price inflation	lower exchange rate
B	more consumer spending	lower interest rates
C	more equal incomes	lower indirect tax rate
D	reduced import levels	smaller trade quotas



Q.No	Answer	Q.No	Answer	Q.No	Answer	Q.No	Answer
1	B	41	D	81	B	121	C
2	C	42	B	82	C	122	C
3	A	43	A	83	C	123	B
4	D	44	C	84	B	124	A
5	B	45	B	85	A	125	B
6	C	46	A	86	D	126	D
7	A	47	B	87	C	127	D
8	B	48	B	88	B	128	D
9	C	49	C	89	D	129	B
10	D	50	A	90	A	130	A
11	D	51	D	91	C	131	D
12	A	52	A	92	A	132	A
13	B	53	C	93	B	133	B
14	A	54	B	94	A	134	C
15	B	55	C	95	D	135	D
16	D	56	C	96	A	136	A
17	C	57	C	97	B	137	D
18	B	58	B	98	C	138	B
19	B	59	A	99	A	139	C
20	A	60	D	100	A	140	A
21	A	61	C	101	A	141	A
22	D	62	A	102	D	142	B
23	B	63	D	103	A	143	A
24	B	64	C	104	B	144	B
25	A	65	D	105	B	145	A
26	D	66	A	106	A		
27	A	67	D	107	D		
28	B	68	A	108	C		
29	B	69	A	109	A		
30	D	70	D	110	D		
31	C	71	C	111	B		
32	B	72	C	112	C		
33	D	73	B	113	A		
34	A	74	D	114	C		
35	D	75	B	115	B		
36	C	76	A	116	A		
37	D	77	A	117	B		
38	B	78	B	118	D		
39	A	79	C	119	A		
40	A	80	B	120	D		